

**IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION**

MIDWAY MFG. CO.,
an Illinois corporation,

Plaintiffs,

vs.

NORTH AMERICAN PHILIPS
CONSUMER ELECTRONICS CORP.,

PARK TELEVISION d/b/a
PARK MAGNAVOX HOME
ENTERTAINMENT CENTER,
an Illinois partnership, and

ED AVERETT,
an individual,

Defendants.

Civil Action No. 81 C 6434

The Honorable

George N. Leighton

JURY DEMANDED

FILED
JAN 31 1984
Judge George N. Leighton
U. S. District Court

**MIDWAY'S MEMORANDUM IN OPPOSITION TO DEFENDANTS'
MOTION FOR SUMMARY JUDGMENT AGAINST
PLAINTIFF MIDWAY MFG. CO.**

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I. INTRODUCTION

Defendants' characterization of the facts is so grossly incorrect that this Court should impose an appropriate sanction against defendants under Rule 11, F.R. Civ. P., as amended.

There are numerous genuine issues of material fact which compel the denial of defendants' motion. Moreover, defendants' contentions are so far-fetched that this Court could grant summary judgment in favor of Midway on the issues defendants raise.

II. THE STANDARDS FOR EVALUATING A MOTION FOR SUMMARY JUDGMENT DEMONSTRATE WHY SUMMARY JUDGMENT IS INAPPROPRIATE HERE

On a motion for summary judgment, the nonmovant is entitled to all reasonable inferences which can be made from the facts. United States v. Diebold, Inc., 369 U.S. 654, 655 (1962). A motion for summary judgment must be denied if there exists a disputed question of material fact. Cedillo v. International Association of Bridge and Structural Iron Workers, 603 F.2d 7, 10 (7th Cir. 1979).

Defendants' claims that "Midway bartered away to co-plaintiff Atari, Inc. ... any right to prosecute this action" and that the Namco assignment to Midway was a sham are based upon erroneous interpretations of several written agreements among Midway, Namco, Ltd. of Japan — the author of the copyrighted PAC-MAN work in suit — and Atari. They are also based on mischaracterized testimony and a calculated disregard for facts of record conflicting with defendants' one-sided assertions.

This court has previously observed that "interpretation [of an] agreement is an especially inappropriate subject for summary disposition." Edw. C. Levy Co. v. Kress Corp., No. 80-C-6464, Slip op. (N.D. Ill. Oct. 7, 1981) (Leighton, J.) (available Jan. 25, 1984, on Lexis, Genfed Library, Dist. file, Appendix, Tab A).¹ This is especially true where, as here, there are numerous written agreements to interpret, and these written agreements on their face raise issues of fact with the defendants' interpretations of them.

Defendants' arguments relating to the alleged "secret oral agreement" can be disposed of as a matter of law. The issue of whether two parties have reached an oral agreement cannot be disposed of on a motion for summary judgment, because it involves determining the motive and intent of each of the parties to the alleged oral agreement. "Questions of motive and intent are particularly inappropriate for summary

¹ Copies of documents and portions of the record referred to in this Memorandum are located in the accompanying Appendix. A Table of Contents for the Appendix is provided for the convenience of the Court.

adjudication." Cedillo, 603 F.2d at 11. Moreover, assuming that there was an oral agreement, it would be unenforceable under Section 205(d) of the Copyright Act. Library Publications, Inc. v. Medical Economics Co., 548 F. Supp. 1231 (E.D. Pa. 1982), aff'd without opinion 714 F.2d 123 (3d Cir. 1983). Moreover interpretation of the terms of any agreement is a factual issue also turning on the intent of the parties, "an issue not susceptible to disposition by summary judgment." Heheman v. E.W. Scripps Co., 661 F.2d 1115, 1129 (6th Cir. 1981), cert. denied, 456 U.S. 991 (1982). See also, Ozark Milling Co. v. Allied Mills, Inc., 480 F.2d 1014, 1015 (8th Cir. 1973) (summary judgment denied as to the existence of an alleged oral contract); Davis v. Chevy Chase Financial Ltd., 667 F.2d 160, 169 (D.C. Cir. 1981) (discerning contractual intent is a factual question unless the terms of the contract are "wholly unambiguous"). Finally, the facts show that there never was any "secret oral agreement" of the type defendants claim.

III. UNDER THE PERTINENT AGREEMENTS,
MIDWAY'S STANDING TO SUE IN THIS
ACTION CANNOT IN GOOD FAITH BE QUESTIONED

A. Midway Has Standing to Sue Under the Copyright Act

Midway has standing to bring this action under the Copyright Act because (1) the controlling agreements specifically provide this right and (2) the Copyright Act grants this right to Midway as a legal and beneficial owner of a copyright interest.

1. Midway has a clear right to sue under the License Agreements.

Midway has an express right by contract to maintain this action. On November 4, 1980, Midway and Namco entered into an agreement which provides that "Namco grants and assigns to [Midway], the entire right, title and interest in common law and statutory copyrights in and to the game in the United States and the Western Hemisphere, and all rights to sue infringers and recover damages for such infringement." (Appendix, Tab E, ¶ 2(b), emphasis added).

Effective April 27, 1981, Midway, Namco and Atari executed an addendum to the November 4 Agreement in which Midway granted to Namco an exclusive license "in the consumer video products field with the right to sublicense only to Atari, Inc. the copyright and trademark rights received by Midway ... in connection with the November 4, 1980 agreement, provided that the exclusive sublicense from Namco to Atari contains" a number of terms permitting Midway to exercise control over the Atari PAC-MAN home video game. (Appendix, Tab G, ¶ 2). The right to file suit under the PAC-MAN copyright and trademark for infringement of the rights licensed to Namco and sublicensed to Atari were specifically spelled out in Paragraph 2(c), a provision that defendants ignored in their memorandum:

If Atari notifies Midway of any infringement by others of the right sublicensed hereunder, and Midway shall either fail to stop such an infringement or bring or maintain an action against an infringer within a period of thirty (30) days after such notification, then Atari shall have the right ... to bring suit in its own name and that of Midway ... Should Midway or Namco bring an action, Atari shall have the right to be represented by its own attorneys at its own expense.

Id. Thus, under this agreement, Midway retained the right to sue infringers and recover damages in connection with infringements of Midway's PAC-MAN game in the field of use licensed to Atari.

Namco and Atari entered into a separate license agreement, also dated April 27, 1981. (Appendix, Tab H) This subsequent Atari-Namco agreement also recited Midway's primary right to bring suit against infringers. (Id., ¶ 3(c)). Thus, by contract, Atari had the right to bring suit only if Midway failed to do so and then only in its own name and that of Midway.

It is well-settled that causes of action under the Copyright Act may effectively be transferred by contract. Prather v. Neva Paperbacks, Inc. 410 F.2d 698, 700 (5th Cir. 1969) ("[copyright] assignee of all chooses in action for infringement, whether a 'proprietor' or not, has standing to sue"); Cf., Grantham v. McGraw-Edison Co.,

444 F.2d 210 (7th Cir. 1971) (held that patent owner who had granted another the exclusive right to practice the patent but specifically reserved the right to sue infringers could maintain infringement action).

There is no public policy against a reservation of a right to sue in a case such as this where the contract itself eliminates the possibility of multiple actions. Prather v. Neva Paperbacks, Inc., 410 F.2d at 700. Moreover, the fact is that only one suit was filed. That the defendants chose to risk settling this suit with Atari but not with Midway has nothing to do with Midway's standing to obtain redress for the damages Midway suffered that were entirely distinguishable from those suffered by Atari.

2. Defendants' assertion that Atari had the sole right to control this lawsuit is frivolous.

Paragraph 10 of the Namco-Atari Agreement (Appendix, Tab Q, ¶ 10) did not give Atari "the sole right to control proceedings relating to any dispute or litigation in connection with its enjoyment of the license", as defendants incorrectly assert. On the contrary, Paragraph 10 governs the rights between Atari and Namco only in "litigation involving matters adversely affecting licensee's rights to manufacture and to sell the game". Id. In such a case, Paragraph 10 provides that Atari "shall have the option to defend against any such claim and to take such action as may be required to preclude others from improper interference with [Atari's] enjoyment of its rights." Id. This does not give Atari the right to control infringement litigation.

Namco could not grant Atari "the sole right to control the proceedings" relating to infringement suits in the consumer video products area because Midway never granted that right to Namco. (Appendix, Tab G). Moreover, Midway's primary right to control infringement litigation is set forth in both paragraph 3(c) of the Namco-Atari agreement (Appendix, Tab H) and in paragraph 2(c) of the Midway-Namco-Atari agreement. (Appendix, Tab G). For these reasons, defendants' argument that Paragraph

10 of the Namco-Atari Agreement should be construed to grant Atari the sole right to collect monetary damages for infringement is wholly lacking in merit. At the very least, defendants contention raise an issue of fact that alone precludes summary judgment.

The cases defendants cite are inapplicable to the present case. In Viacom International, Inc. v. Tandem Productions, Inc., 368 F.Supp. 1264 (S.D.N.Y. 1974), aff'd 526 F.2d 593 (2d Cir. 1975) the licensor interfered with its licensee's rights under an exclusive distributorship by entering into an agreement with a third party to take over part of the distributorship. No issue regarding the right to sue infringers was present in the case. Further, the activities of the licensor in that case directly affected the licensee's rights to conduct the distributorship. In contrast, Midway's lawsuit is merely directed against a third party infringer. Likewise, Dodd, Mead & Co. v. Lilienthal, 514 F.Supp. 105 (S.D.N.Y. 1981), is distinguishable because it involved a suit by a licensee against its licensor for printing a work which constituted an infringement of the licensed work.

3. Even If Midway's Right To Sue Were Not Spelled Out In The Agreements, Midway Would Have Standing Under The Copyright Act.

Even if the agreements had not explicitly spelled out Midway's right to sue, Midway would be entitled to bring this action under the Copyright Act. Section 501(b) of the Act provides that either the "legal or beneficial owner of an exclusive right under a copyright is entitled ... to institute an action for any infringement ... (emphasis added)." Midway has both a legal interest and a beneficial interest in the PAC-MAN copyright.

Midway is the legal owner of the PAC-MAN copyright. (Appendix, Tabs C,D,E,F,G,H). Midway granted Namco a highly limited license to market only a home video cassette based on the Midway coin-operated PAC-MAN video game, with the right to sublicense only to Atari. Neither Namco nor Atari had the right to grant a license to North American or anyone else to market a home video cassette version of PAC-MAN. (Appendix, Tabs F,G,H). Since Midway's approval was required for North American to

obtain a license to market a home video cassette version of PAC-MAN (such as K.C. Munchkin), it can hardly be said that Midway is not the legal owner. Moreover, defendants copied Midway's coin-operated PAC-MAN video game, not any Atari work (which was non-existent at the time). Under these circumstances, defendants' assertion on page 12 of their brief that Midway had no property right is ludicrous.

In addition to its legal interests in the copyright, Midway has a substantial beneficial interest which entitles it to bring this action. It has been held that even one who conveys a copyright interest by assignment may retain a right to sue where, as here, he retains sufficient other rights to remain the beneficial owner of the copyright interest. Cortner v. Israel, 568 F. Supp. 1217 (S.D.N.Y. 1983).

In Manning v. Miller Music Corp., 174 F. Supp. 192 (S.D.N.Y. 1959), the court held the plaintiff to be an equitable owner of a copyright since it reserved "very substantial rights" under the license agreement, including:

- (1) the right to receive royalties; (2) a restriction on assignment of certain rights by the publisher, such as motion picture rights, without plaintiffs' consent; (3) limitation on publisher's right to grant block or bulk licenses without the consent of the Songwriters Protective Association of which plaintiffs are members; (4) restriction on television or for new purposes without plaintiffs' written consent; (5) the right for a limited period to secure reassignment of the song and copyright if it is not made productive by the publisher; (6) specific reservation of renewal rights; (7) the right to share in any damages recovered in any infringement action.

174 F. Supp. at 195; See also Topolos v. Caldewey, 698 F.2d 999 (9th Cir. 1983) (author held to be beneficial owner where publisher was required to publish the book within one year after the manuscript was delivered; all rights, including the copyright were to revert to the author if the book was not kept in print; and the author retained the right to royalties, the right to block the licensing of certain rights, and the right to bring a copyright infringement action if the publisher refused to do so).²

² At least one commentator has noted that a licensor who retains a termination interest in the copyright retains a sufficient interest to be considered a "beneficial (cont'd)

Midway has reserved "very substantial rights" under the agreements that confer upon it, like the plaintiffs in Manning and Topolos, a beneficial interest. The "substantial rights" Midway reserved include:

- (1) the right to control the grant of the sublicense of the copyrights and trademarks for use in the home field (April 27 Addendum, Appendix, Tab G, ¶ 2);
- (2) the right to sue infringers and recover damages for such infringement (November 4 Agreement, Appendix, Tab E, ¶ 2(b));
- (3) an obligation to maintain actions against infringers in the home video cassette area (April 27 Addendum, Appendix, Tab G, ¶ 2(c));
- (4) the right of approval regarding the level of quality of the home game including the right to terminate the license if the product fails to meet the approved quality level (April 27 Addendum, Appendix, Tab G, ¶ ¶ 2(a), 2(b));
- (5) a termination interest of the home video cassette rights granted to Namco and Atari. (Appendix, Tab H, ¶ 3(b)).

One court has noted that "in cases in which beneficial ownership has been found, it appears that the author assigned the copyright with the expectation that the assignee would exploit the work for their joint benefit." Cortner v. Israel, 568 F. Supp. 1217, 1219 (S.D.N.Y. 1983). The quality control provisions in the Atari-Midway agreement evidence a fiduciary relationship under which Midway was to reap intangible benefits, such as goodwill from the Atari sales. This fiduciary relationship, based on the general law of trusts was recognized in Manning and Schisgall v. Fairchild Publications, Inc., 104 U.S.P.Q. 153 (N.Y. Sup. Ct. 1955). In Schisgall, the court stated:

[I]t is not necessary to use the magic words of "fiduciary relationship" or to hold that a "relationship of trust and confidence" was created by the contract, or to find that [the publisher] became a "trustee" of the copyright for the benefit of the plaintiffs.

owner". A. Latman, The Copyright Law: Howell's Copyright Revised and the 1976 Act (5th ed. 1979), p. 230.

Id. at 155.

Defendants' mistakenly rely on M. Nimmer, Nimmer on Copyright, §12.02 for Nimmer's unsupported conclusion that only the "exclusive licensee" may sue for infringement. The few cases cited by Nimmer for this proposition do not support it at all. Moreover, where as here, Midway has a termination interest, another commentator disagreed with Nimmer's unsupported conclusion. A. Latman, The Copyright Law: Howell's Copyright Revised and the 1976 Act (5th ed. 1979), p. 230. Nimmer's bare conclusion is also contrary to the plain meaning of the statute that unequivocally gives either the "legal or beneficial owner of an exclusive right" standing to sue "for infringement of that particular right." 17 U.S.C. §501(b). Finally, it is unclear at best that Atari is an "exclusive licensee" in the same sense that Nimmer may have been using the term, because Midway retained a number of rights that are normally granted to an exclusive licensee, including the primary right to sue, the right to authorize the grant of further licenses, and the right to terminate the license under certain conditions.

4. Midway's Substantial "Stake" In The Outcome Of This Action Is Evidence Of Midway's Beneficial Ownership Of The Copyright

Midway acquired the PAC-MAN rights from Namco in October, 1980. (Appendix, Tabs C,D,E). Midway marketed over 96,000 PAC-MAN coin-operated video games in 1981. (Appendix, Tab Q). The game became so popular that Midway launched a merchandise licensing program under the PAC-MAN copyright and trademark rights, which generated licenses to over 90 companies for over 500 products. (Sutherland Trial Testimony in Bally Midway Mfg. Co. v. Mischok Toy Co., No. 82-2353, Trial Tr. at 231-32, 206, 217-18 Appendix, Tab N).³ Only one of those licenses was the limited royalty-free license to Namco with the right to sublicense Atari to make a home video game

³ The trial transcript from Bally Midway Mfg. Co. v. Mischok Toy Co. was produced to defendants for inspection and is filed in lieu of affidavits.

PAC-MAN cartridge.

In November 1981, prior to the introduction by Atari of its PAC-MAN cartridge, defendants introduced the accused K.C. Munchkin video game. (Gallo Aff. ¶¶ 2-3, Appendix, Tab O; Paul Aff. ¶ 5, Appendix, Tab P). The Court of Appeals has held in this case that K.C. Munchkin was an infringing copy of Midway's coin-operated PAC-MAN game. Atari, Inc. v. North American Philips Consumer Electronics Corp., 672 F.2d 607 (7th Cir.), cert. denied, U.S. , 74 L.Ed.2d 145, 103 S.Ct. 176 (1982). At the time of the infringement, and ever since, Midway was the owner of "all right, title and interest" in the PAC-MAN copyright and trademark rights. (Certificate of Copyright Registration; Assignment of Copyright; October 11, 1980 letter; November 4 Agreement, Appendix, Tabs C-F).

Under the Copyright Act, the copyright owner is entitled to recover "any profits of the infringer that are attributable to the infringement and are not taken into account in computing the actual damages." 17 U.S.C. §504(b). The purpose of awarding plaintiff the defendants' profits is "to prevent the infringer from unfairly benefiting from a wrongful act." H.R. Rep. No. 94-1476, 94th Cong., 2d Sess. 161 (1976) (reprinted in 4 Nimmer, Nimmer on Copyright, Appendix 4 (1983)). Thus, the owner of the copyright does not need to prove damages in order to recover the infringer's profits.

The "wrongful act" in this case was the defendants' copying of Midway's PAC-MAN coin-operated video game at a time when Midway's PAC-MAN video game was nearing the height of its popularity. Defendants obviously copied the PAC-MAN in order to take advantage of the enormous popularity of Midway's PAC-MAN arcade game, a fact that was recognized by Odyssey dealers, who palmed off K.C. Munchkin as "a PAC-MAN game" or "Odyssey's PAC-MAN" Atari, Inc. v. North American Philips Consumer Electronics Corp., 672 F.2d at 613. Defendants did not try to palm off K.C. Munchkin as an Atari PAC-MAN game: none existed. Defendants profited from their sale of K.C. Munchkin because it satisfied the desire of consumers to purchase a home

version of Midway's popular coin operated PAC-MAN arcade game. Thus, it was Midway's copyright that was infringed, not Atari's copyright.

Midway's beneficial ownership is further evidenced by the fact that Midway suffered damages from defendants' acts even though Midway did not receive any royalties from the Midway-Namco-Atari license. (Appendix, Tab G). Midway had licensed Coleco to sell an electronic table top PAC-MAN video game. (Appendix, Tab L, p. 22, Tab S). Coleco was Midway's most important licensee in terms of royalties paid for the use of the PAC-MAN rights. (Appendix, Tab R). Coleco believes that it lost sales because of the sale by defendants of the K.C. Munchkin game, as Alfred R. Kahn, Executive Vice President of Coleco, testified:

Q. Do you believe that an owner of a K.C. Munchkin cartridge would buy a Coleco PAC-MAN game?

Mr. Williams. Objection. You are leading the witness and no foundation.

BY MR. COHEN:

Q. You may answer.

A. No.

(Appendix, Tab L, p. 46). Because Coleco lost sales, Midway lost royalties from those sales. Atari had no right whatsoever to the Coleco royalties. (Compare, Appendix, Tab S with Tab G, ¶ 1, Tab H, ¶ 2). Thus, Midway suffered damages from defendants' acts of infringement that are entirely different from the damages suffered by Atari.

Because Midway and Atari each suffered different types of damage, each has a separate stake in the outcome of the suit, and thus has standing to sue. Cf. United States v. Students Challenging Regulatory Agency Procedures (SCRAP), 412 U.S. 669, 687 (1973).

Defendants' convoluted interpretations of the standing provisions of the Copyright Act are thus in sharp conflict with the long-established standing principles set forth by the Supreme Court. In addition, defendants' arguments twist the plain meaning of the Midway-Namco-Atari agreements which specifically set forth Midway's right to sue, both under the Copyright Act and under the Lanham Act. Moreover, the differences

between defendants' out-of context misinterpretation of the various agreements and the plain meaning of the agreements raises fact issues which preclude summary judgment.

B. Midway Has Standing to Sue Under the Lanham Act

Midway's standing to sue under Section 43(a) of the Lanham Act, 15 U.S.C. §1125a, is so apparent that the defendants have not even attempted to argue otherwise.

On its face, Lanham Act §43(a) gives standing to sue to "any person who believes that he is or is likely to be damaged." 15 U.S.C. §1125a. See also L'Aiglon Apparel Co. v. Lana Lobell, Inc., 214 F.2d 649, 651 (3d Cir. 1954) ("It seems to us that Congress has defined a statutory civil wrong of false representation of goods in commerce and has given a broad class of suitors injured or likely to be injured by such wrong the right to relief in the federal courts").

In its Amended Complaint, Midway alleges that the defendants have simulated non-functional design features of Midway's PAC-MAN audiovisual work which have acquired a secondary meaning. As recognized in Midway Mfg. Co. v. Dirkschneider, 543 F. Supp. 466, 487 (D. Neb. 1981), defendants' "knocking off" of the PAC-MAN characters is a violation of Lanham Act, §43(a), 15 U.S.C. §1125a. (Amended Complaint, ¶14-17, ¶28⁴). The likelihood of confusion caused by defendants marketing of K.C. Munchkin inevitably leads to damages. Helene Curtis, Inc. v. Church & Dwight Co., 560 F.2d 1325, 1332 (7th Cir. 1977), cert. denied, 434 U.S. 1070 (1978). Thus, Midway can make the required showing that it has a "reasonable interest to be protected" Smith v. Montero, 648 F.2d 602, 608 (9th Cir. 1981). Moreover, there is no requirement that

⁴ See Appendix, Tab T for Amended Complaint. On January 19, 1984, this Court granted Midway leave to file a Second Amended Complaint containing the amendments presented in its Motion For Leave to Amend Amended Complaint, also provided in the Appendix, Tab U-V. References to Amended Complaint are to provisions which are unaffected by the amendments.

plaintiff be in actual competition with the alleged wrongful doer. Id. at 607 and cases cited therein; James Burrough Ltd. v. Sign of Beefeater, Inc., 572 F.2d 574 (7th Cir. 1978).

In Estate of Presley v. Russen, 513 F. Supp. 1339 (D.N.J. 1981), the court found that the owner of certain trademarks rights had standing to sue under §43(a) where, as here, the rights sought to be protected had been licensed to third parties. The court noted that a license to use certain property rights, such as service marks, does not divest the licensor of ownership of the rights and standing to protect them. Further, it noted that showing of receipt of income under the license is not required for standing to exist:

Perhaps an even more compelling reason for granting standing than ... income from the current licensing agreements, is [plaintiff's] protection of and future ability to generate income from those property rights.

...
If, as is alleged by plaintiff, the defendant's use of certain logos or advertising is likely to have a negative impact on these intangible property rights or on the goodwill associated with [plaintiff], then a sufficient reason for granting standing exists.

Id. at 1350-51.

In this case, although Midway licensed Namco and Atari the right to use the characters and other non-functional design features of the Pac-Man audiovisual work in a home video game cassette, it continued to use and exploit the PAC-MAN characters in its coin operated game business and through its grant of over 90 licenses for the use of the PAC-MAN characters and images in over 500 products in all other areas. (Appendix, Tab N). Several courts have recognized that Midway has built up considerable goodwill and business reputation by its marketing of coin operated games, alone. E.g., Midway Mfg. Co. v. Dirkschneider, 543 F.Supp. at 487; Bally Midway Mfg. Co. v. Micropin Corp., No. 82-71456, Slip op. at 3 (Appendix, Tab B) (E.D. Mich., July 27, 1982). The PAC-MAN licensing program could only enhance Midway's goodwill in the PAC-MAN images. The

extensive goodwill Midway owns in PAC-MAN, constitutes a "reasonable interest to be protected." Smith v. Montero, 648 F.2d at 608.

North American's retailers referred to K.C. Munchkin as "Odyssey's PAC-MAN" or "a PAC-MAN game." As the Court of Appeals observed, this evidence shows "that at least some lay observers view the games as similar." Atari, Inc., 672 F.2d at 619. Moreover, it is also evidence that Odyssey's retailers were either confused themselves or were intentionally palming off K.C. Munchkin as PAC-MAN. In either case, the retailers' actions "[give] rise to an inference that purchasers would also be confused." Union Carbide Corp. v. Ever-Ready, Inc., 531 F.2d 366, 384 (7th Cir. 1976), cert. denied, 429 U.S. 830 (1976). Confusion in a Lanham Act case always gives rise to injury. Helene Curtis Industries, Inc. v. Church & Dwight Co., 560 F.2d at 1332.

C. Midway's Pleadings Are Sufficient

Defendants' contention at page nine that Midway has not alleged that any of its copyright or trademark rights in the PAC-MAN game were infringed by the K.C. Munchkin game is contradicted by the allegations in the Amended Complaint. Paragraph 12 of the Amended Complaint alleges that North American and Averett have infringed Midway's copyright in the PAC-MAN audiovisual work by selling K.C. Munchkin cartridges. In paragraph 16, Midway alleges that defendants simulated in the K.C. Munchkin game the non-functional design features of PAC-MAN, which the court in Midway v. Dirkschneider, 543 F. Supp. at 487, held had acquired secondary meaning, or in other words, had become trademarks of Midway. In view of these allegations, Midway has amply pleaded infringement by defendants of its trademark and copyright rights in PAC-MAN.

IV. NAMCO'S ASSIGNMENT TO MIDWAY WAS NOT A SHAM

The PAC-MAN copyright was unequivocally conveyed to Midway in at least two documents: (1) an October 10, 1980 "Assignment of Copyright" (See Appendix Tab C) and a clause in an agreement dated November 4, 1980, ¶ 2(b), pp.2-3 (See Appendix

Tab E). Namco's trademark rights were transferred to Midway by the November 4 agreement.

Defendants' claim that the October 10, 1980 assignment was a "feigned assignment" and a "sham ... for tactical purposes only" is not supported by any evidence, and in fact is contradicted by the documentary evidence in this case. Moreover, every court in which this spurious claim has been raised has held that the October 10, 1980 assignment was not a sham.

A. Courts Have Consistently Rejected
"Sham Assignment" Arguments.

In Midway Mfg. Co. v. Artic International, Inc., 211 U.S.P.Q. 1152, 1161 (N.D. Ill. 1981), Judge Decker denied a motion for summary judgment on the issue of copyright ownership. Judge Decker noted that the PAC-MAN Certificate of Copyright Registration, which is prima facie evidence of the facts stated in the certificate, states that Namco assigned the copyright to Midway. (Appendix, Tab F). Judge Decker concluded that "at best, defendant's contentions raise an issue of material fact as to who owns the copyrights in question," and denied summary judgment. 211 U.S.P.Q. at 1161.

The International Trade Commission has held that the October 10, 1980 Assignment was intended by Midway and Namco to assign the PAC-MAN rights. In re Certain Coin Operated Audiovisual Games and Components Thereof (Viz. RALLY-X and PAC-MAN), 218 U.S.P.Q. 924, 929-30 (U.S. I.T.C. 1982), rev'd on other grounds, Bally Midway Mfg. Co. v. United States International Trade Commission, 714 F.2d 1117, 1121-22 (C.A.F.C. 1983). In that proceeding, "David Marofske, President of Midway, and Hideyuki Nakajima, President of Namco America (Namco's U.S. subsidiary) testified that the parties intended the October 10 assignments to transfer all copyright ownership rights to Midway." Id., 218 U.S.P.Q. at 929-30. The Commission held, "that the October 10 [assignment] actually transferred the [copyright] in issue." Id. at 938. See also,

Midway Mfg. Co. v. Artic International, Inc., 547 F. Supp. 999, 1010-11 (N.D. Ill. 1982) (Decker, J.), aff'd, 704 F.2d 1009 (7th Cir. 1983), cert. denied, __ U.S. __, 104 S. Ct. 90 (1983).

B. Midway's President Has Denied the Existence of
An Oral Agreement of the Type Defendants Claim.

Defendants' claims that Midway and Namco had a "secret oral agreement with its original assignor Namco whereby Namco really owned all right, title and interest in PAC-MAN and it could reclaim legal title whenever it wanted for no apparent consideration" is unsupported by any competent evidence. The only record references that defendants cite to support their argument are deposition testimony by Hideyuki Nakajima and a letter from Dennis Wood, a Namco lawyer. These record references do not support defendants' claims.

The portions of Mr. Nakajima's testimony relied on by defendants show that Mr. Nakajima does not have a clear recollection of the date of the alleged oral understanding (Nakajima dep. 130, Appendix, Tab J) or of its terms (Nakajima dep. 132). Moreover, Namco's mere assertion that there was an oral understanding is not sufficient to establish that Midway and Namco had a mutual oral understanding of the type defendants assert. Summary judgment on this issue is entirely inappropriate where, as here, Mr. Marofske has unequivocally denied that there was an agreement to give all of the PAC-MAN rights back to Namco without any consideration. (Marofske dep. 49, 68, 70, 71, Appendix, Tab K).

Defendants' argument that there was a broad oral agreement between Midway and Namco is further contradicted by the November 4, 1980 license agreement. (Appendix, Tab E). This agreement reiterated Namco's unequivocal assignment of the PAC-MAN rights to Midway. (Appendix, Tab E, ¶ 2(a), 2(b)). Moreover, paragraph 2(e) of the agreement is interlineated in such a way as to infer that Namco originally proposed that Midway permit Namco to make any use of the PAC-MAN copyright "for any reason whatsoever" at Namco's request. As is dramatically shown by the photocopy of

paragraph 2(e) reproduced below, it may be inferred from the face of the agreement that Midway did not agree with Namco's proposal, and instead agreed to license the use of the PAC-MAN copyright to Namco on a royalty-free basis, only "for use as a 'home video cassette'":

(e) The LICENSEE is agreed that should the LICENSOR request, in writing, ~~for any reason whatsoever~~, to make use of LICENSEE'S copyrights in the exclusive territories granted in the Agreement, ^{for use as a "Home Video Cassette"} such request shall be granted immediately and without question, and that no remuneration shall be required of LICENSOR in consideration for such use of the copyrights.

Defendants' claim of the existence of a "secret oral agreement" is further undercut by the fact that Namco acquiesced to Midway's repeated rejection of Namco's claims: Namco "decided to accept the refusal of Midway about granting the rights back to Namco." (Nakajima dep. 208, Appendix, Tab J). Midway never licensed back any PAC-MAN rights to Namco on a royalty-free basis except the home video game and the computer software rights. (Jarocki Trial Testimony in Bally Midway Mfg. Co. v. Mischok Toy Co., No. 82-2353, Trial Tr. at 298, 354-56 (E.D.N.Y., Dec. 22, 1983), Appendix, Tab M; Marofske dep. 51-53, Appendix, Tab K).

Defendants' argument on pages 7-8 of their brief regarding the alleged January 12, 1982 Midway-Namco memorandum agreement (Appendix, Tab W) is grossly misleading. Defendants fail to mention that Midway received significant consideration

for Midway's transfer of some rights to Namco. (Tab W, ¶ 2). Thus, the January 12 "agreement" does not imply that there was a side oral agreement, because Midway and Namco were free to modify the November 4 agreement (Tab E) at any time for any reason. Moreover, this agreement was cancelled within a short time after it was made (Nakajima dep. 134-137, Tab J; Tab W, marginal note), a fact defendants also fail to mention.

C. The March 10, 1982 Letter From Wood to Marofske is Heresay

The evidence shows that Midway and Namco had a running dispute (Marofske dep. 86, Appendix, Tab K) as to whether there was an oral agreement by which Midway would return the PAC-MAN rights to Namco under any circumstances and without remuneration. In this respect, Namco's pecuniary interest is adverse to Midway's.

In support of their claim that there was an oral side agreement between Namco and Midway, the defendants cite a March 10, 1982 letter from Dennis Wood, counsel for Namco-America to David Marofske, President of Midway. (Appendix, Tab I). This letter is no more than an argument by Namco's counsel, which followed numerous Namco requests that had been rejected by Midway.

Because it is a self-serving lawyer's argument, the Wood letter is not admissible into evidence. Fed. R. Civ. P. 803(6) prohibits for the admission of records kept in the course of a regularly conducted business activity, if "the source of information or the method or circumstances of preparation indicates lack of trustworthiness." The Wood letter is not trustworthy because it is a self-serving letter written by Namco's lawyer directed to Midway in connection with a matter in which Namco's pecuniary interests were adverse to those of Midway. Thus, the Wood letter differs from "business memoranda ... which import a circumstantial guarantee of trustworthiness. United States v. Hickey, 360 F.2d 127, 143 (7th Cir.) cert. denied, 385 U.S. 928 (1966). It is not a trustworthy document as is an accident report prepared by an

employee who had no motivation to fabricate the report, where the reports were required by a governmental agency and used by the employer for prevention of future accidents. Lewis v. Baker, 526 F.2d 470, 473-74 (2d Cir. 1975).

Any possible argument concerning the admissibility of the Wood letter is disposed of by Pan-Islamic Trade Ass'n. v. Exxon Corp., 632 F.2d 539, 560 (5th Cir. 1980), cert. denied, 454 U.S. 927 (1981). There, the court held that a memorandum which had been prepared to present facts in the best light for the author company to persuade another company not to breach its contract was inadmissible because it was not trustworthy. Similarly, Wood's motive in this case to present Namco's position in the March 10 letter in strong terms to persuade Midway to acquiesce in Namco's position renders the letter untrustworthy. Wood had no motive to state the facts in a neutral, impartial and unbiased manner. Moreover, Namco's acquiescence to Midway's view that there never was an oral agreement of the type described in the Wood letter, is itself evidence that the Wood letter did not accurately portray the facts. (Nakajima dep. 208; Appendix, Tab J).

D. Defendants' "Unclean Hands" Defense is Inappropriate.

Even if there were an oral agreement by which Midway agreed to give all of the PAC-MAN rights back to Namco at Namco's request, such an oral agreement would not give rise to a defense of unclean hands, because Midway never returned any rights to Namco in any way that is inconsistent with one November 4, 1980 license agreement.

Midway was the owner of the PAC-MAN copyright at the time it was registered with the Copyright Office. (Appendix, Tabs C-F) Midway has never relinquished ownership of the copyright, (Marofske dep. 51-56, 65-68, Appendix, Tab K) and it has always owned the right to sue for infringement.

Under these circumstances, defendants have failed to meet their burden of proof. A finding of unclean hands must be based on clear, unequivocal, and convincing

evidence. Scott Paper Co. v. Fort Howard Paper Co., 432 F.2d 1198, 1204 (7th Cir. 1970), cert. denied, 401 U.S. 913 (1971). Here, there is no evidence whatsoever.

**V. MIDWAY'S STATE LAW AND COMMON LAW CLAIMS
CANNOT BE PREEMPTED OR DISMISSED FOR LACK OF JURISDICTION**

A simple comparison of the rights protected by the Copyright Act and the rights protected by the relevant Illinois state statutes and Illinois common law demonstrates that Midway's claims under Illinois law involve different elements of proof than the copyright claim and are thus not preempted under the Copyright Act.

Section 106 of the Copyright Act provides that the copyright owner has the exclusive right, among other things, to: (1) make copies of the work; (2) prepare derivative works based on the copyrighted work; (3) distribute or sell copies of the copyrighted work and (4) perform the copyrighted work publicly. 17 U.S.C. §§106(1)(2)(3) and (4). In contrast, Midway's claims under the Illinois Deceptive Trade Practices Act (Motion for Leave to Amend Amended Complaint, ¶ 1, Appendix, Tab U), the Illinois Consumer Fraud Act (id.) and Illinois common law are quite different. (Id. at ¶ 2).

The Illinois statutes were enacted "to protect consumers and borrowers and businessmen against fraud, unfair methods of competition and unfair or deceptive acts or practices in the conduct of any trade or commerce". Preamble to Ill. Rev. Stat., ch. 121-1/2 §261 et seq. Moreover; Section 262 of the Illinois Consumer Fraud Act provides that:

Unfair methods of competition and unfair or deceptive acts or practices, including but not limited to the use or employment of any deception, fraud, false pretense, misrepresentation ... are hereby declared unlawful....

Section 312 of the Deceptive Trade Practices Act provides that a person engages in deceptive trade practice when, among other things, he:

- (1) passes off goods or services as those of another;
- (2) causes likelihood of confusion or of misunderstanding as to the source, sponsorship, approval or certification of goods or services;
- (3) causes likelihood of confusion or of misunderstanding as to affiliation, connection or association with or certification by another.

Essentially, Midway claims under Illinois law that defendants competed unfairly with Midway by causing confusion as to the source and sponsorship of its K.C. Munchkin home video cartridge through deception, misrepresentation and other unfair acts. Thus the state law claims all require proof of likelihood of confusion; the Copyright Act claim does not. Since the elements of the state law claim are not equivalent to the copyright claim, they are not preempted. See, M. Nimmer, Nimmer on Copyright, §1.01[B], p. 1-14, n. 47 and cases cited therein.

In F.E.L. Publications, Ltd. v. National Conference of Catholic Bishops, 466 F. Supp. 1034 (N.D. Ill. 1978), plaintiff claimed, as Midway does here, that defendants' use of its proprietary works violated its rights under the Copyright Act, Lanham Act §43(a), the Illinois state statutes discussed above and Illinois common law. Defendants in F.E.L. argued, as defendants argue here, that plaintiff's Illinois statutory and common law claims were preempted by federal copyright law, relying on the Sears and Compeco cases. Judge Rozkowski rejected the defendants' preemption argument out of hand.

The cases cited by defendant in support of their preemption argument are clearly distinguishable. The elements to be proven under the state law claims in these cases were essentially the same as the elements to be proven under the Copyright Act Claims. In Schuchart & Associates, Professional Engineers, Inc. v. Solo Serve Corp., 540 F. Supp. 928 (W.D. Tex. 1982), for example, the plaintiff claimed violation of its state law rights by defendants' misappropriation of plaintiff's architectural and engineering drawings and specifications. The court viewed plaintiff's federal copyright and state misappropriation claims as "substantially equivalent," but specifically acknowledged that the tort of misappropriation was different from the tort of unfair competition, since unfair competition involved passing off or creating a likelihood of confusion as to the source of the products which "may truly differ from the exclusive rights of copyright." Id. at 944, n. 12. See Ortho-O-Vision, Inc. v. Home Box Office, 474 F. Supp. 672, 684 n. 12 (S.D.N.Y. 1979); D.C. Comics, Inc. v. Filmation Associates, 485 F. Supp. 1273, 1278

(E.D.N.Y. 1980). Defendants' other case, Suid v. Newsweek Magazine, 503 F. Supp. 146 (D.D.C. 1980), involved alleged wrongful failure of proper attribution and is unpersuasive for the same reason.

Defendants' contention to the effect that Midway's pendant state law claims should be dismissed if its copyright claim is dismissed ignores Midway's federal claim under Section 43(a) of the Lanham Act and is not supported by the United States Supreme Court's decision in United Mine Workers of America v. Gibbs, 383 U.S. 715, 86 S.Ct. 1130 (1966) or by Seventh Circuit law. In Gibbs, the Court held that a federal court's exercise of jurisdiction over a pendant state claim is discretionary, and noted that "the state and federal claims must derive from a common nucleus of operative fact." 383 U.S. at 725, 86 S. Ct. at 1138.

In Pate Company v. RPS Corporation, 79 F.R.D. 356 (N.D. Ill. 1978), Judge Bua discussed the propriety of federal court jurisdiction over pendant state claims which, like those in the present case, are asserted under 28 U.S.C. §1338(b). Section 1338(b) confers jurisdiction upon district courts over claims of unfair competition which are joined with a "substantial and related" claim under the copyright or trademark laws. Judge Bua said:

The question of whether the federal claim is substantial and related to the unfair competition claim depends upon whether the two claims, "rest upon substantially identical facts." Although this standard was formulated by the Seventh Circuit prior to the Supreme Court's decision in United Mine Workers v. Gibbs, it appears to represent the law of this circuit.

79 F.R.D. at 360 (citations and footnote omitted). Defendants admit that Midway relies on the same facts in support of its federal copyright claim as it does in support of its state claims. Consequently, this court's exercise of discretion in the present case would be consistent with Gibbs and Seventh Circuit law. Moreover, Midway's copyright claim is substantial given the preliminary injunction already in effect in this case. This court's exercise of discretion in such circumstances would there be entirely warranted. For all

of these reasons, this court should exercise its discretion and retain jurisdiction over Midway's state law claims which arise out of the same facts as its federal copyright and Lanham Act claims.

V. CONCLUSION

For the reasons stated above, defendants' motion for summary judgment should be denied because of the numerous genuine issues of material fact or erroneous legal theories which pervade defendants' Memorandum.



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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing PLAINTIFF'S MOTION FOR LEAVE TO FILE INSTANTER MEMORANDUM EXCEEDING FIFTEEN PAGES and MEMORANDUM IN OPPOSITION TO DEFENDANTS' MOTION FOR SUMMARY JUDGMENT AGAINST PLAINTIFF MIDWAY MFG. CO. have been served, by hand delivering a copy to

James H. Alesia
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and

Theodore W. Anderson
James T. Williams
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on this 30th day of January, 1984.


Jacqueline A. Leimer